

Message Text

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USMISSION EC BRUSSELS

AMEMBASSY HELSINKI

AMEMBASSY LONDON

USMISSION NATO

AMEMBASSY PARIS

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AMEMBASSY PRAGUE

AMEMBASSY ROME

AMEMBASSY SOFIA

AMEMBASSY TOKYO

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AMCONSUL HAMBURG

C O N F I D E N T I A L MOSCOW 12682

E.O. 11652 XGDS-1

TAGS: ETRD, EFIN, ENRG, EALR, UR, JA, EEC, FI

SUBJ: MOSCOW'S MOUNTING TRADE DEFICIT WITH THE INDUSTRIAL WEST

REF: (A) MOSCOW 11867 (NOTAL; (B) MOSCOW 10721 (NOTAL);

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(C) STATE 175892 (NOTAL; (D) HELSINKI 1939 (NOTAL); (E) MOSCOW

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1. SUMMARY - STEADY RISE IN SOVIET TRADE DEFICITS WITH LEADING DEVELOPED-COUNTRY TRADE PARTNERS IS INCREASINGLY EVIDENT. PRELIMINARY FIRST HALF-YEAR FIGURES FOR SOVIET TRADE WITH US, JAPAN, FRG, ITALY AND FRANCE INDICATE TOTAL DEFICIT FOR TRADE WITH INDUSTRIAL WEST PROBABLY IN EXCESS OF DOLS TWO BILLION. JAPANESE EMBASSY MOSCOW SPECULATES THAT SOVIETS MAY BE REVIEWING OVERALL TRADE POLICY WITH JAPAN, SINCE SOVIETS HAVE SUDDENLY REFUSED TO RESUME SCHEDULED DISCUSSION OF PLANS FOR NEW JAPANESE-SOVIET TRADE AGREEMENT. HIGHER PRICES FOR WESTERN INDUSTRIAL

MACHINERY IMPORTS HAVE SURELY SHARPENED IMBALANCES, AND COINCIDENCE OF DELIVERIES ON CONTRACTS SIGNED ONE-TWO YEARS AGO WITH HIGHER WESTERN PRICES AND WITH NECESSITY FOR MASSIVE GRAIN IMPORTS TO COMPENSATE FOR SHORTFALL FROM DISAPPOINTING 1975 HARVEST MAKES THESE TRADE DEFICITS AWKWARDLY LARGE FOR SOVIET PLANNERS AT THIS TIME. ALTHOUGH SALE OF GOLD IS ONE WAY OUT, AT PRESENT SOVIETS MUST PREFER TO AVOID EXACERBATING RECENT DOWNWARD FLUCTUATIONS IN WORLD GOLD PRICES BY ADDING TO SUPPLY AVAILABLE ON INTERNATIONAL MARKETS. USSR APPEARS TO BE SEEKING FUND AT LEAST PART OF CURRENT DEFICIT BY LOANS FROM CHIEF TRADING PARTNERS, INCLUDING JAPAN (REF B) AND EUROCURRENCY SOURCES (REF E). END SUMMARY.

2. THE PHENOMENON OF MOSCOW'S STEADILY RISING AND INCREASINGLY CONSPICUOUS TRADE DEFICIT WITH ITS MAJOR DEVELOPED CAPITALIST TRADING PARTNERS HAS BECOME EVIDENT HERE DURING THE PAST SEVERAL WEEKS AS TRADE FIGURES FOR FIRST HALF OF 1975 EMERGE. ACCORDING TO JAPANESE EMBASSY, THE UNPRECEDENTED TRADE DEFICIT WHICH USSR IS NOW RUNNING WITH JAPAN (US DOLS 283 MILLION DURING JANUARY-JUNE 1975) HAS CAUSED A DELAYING ACTION BY SOVIETS IN CONVENING OF ROUTINE MEETING TO NEGOTIATE NEW FIVE-YEAR JAPANESE SOVIET TRADE AGREEMENT. IN JULY SOVIETS HAD AGREED IN PRINCIPLE TO MEETING IN MOSCOW IN MID-SEPTEMBER. IT WAS ALSO AGREED THAT DOCUMENTS CONTAINING COMMODITY LISTS WOULD BE EXCHANGED PRIOR TO OCTOBER 15. SO FAR, HOWEVER, NUMEROUS REQUESTS BY JAPANESE EMBASSY TO SOVIET FOREIGN TRADE MINISTRY (MFT) REGARDING EXACT DATE MEETING SHOULD TAKE PLACE IN MOSCOW HAVE EITHER BEEN UNANSWERED OR PUT OFF WITH CONFIDENTIAL

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COMMENT THAT MINISTRY HAS NOT YET DECIDED. ON SEPTEMBER 3 JAPANESE EMBASSY WAS TOLD THAT "ALL MEMBERS OF MFT ASIAN DIVISION ARE ON VACATION" AND THEREFORE NO DECISIONS CAN BE MADE. SINCE MFT HAS PREVIOUSLY BEEN VERY COOPERATIVE, ESPECIALLY ON IMPORTANT MEETINGS, JAPANESE HAVE CONCLUDED THAT MFT IS NOW REVIEWING TRADE POLICY WITH JAPAN AND POSSIBLY WITH OTHER COUNTRIES IN "INDUSTRIAL WEST" AS WELL.

3. JAPANESE NOTED THAT, AS EMBASSY HAS REPORTED EARLIER, SOVIETS HAVE BEEN RUNNING STRONG TRADE DEFICITS WITH AT LEAST FIVE OF THEIR MAJOR DEVELOPED COUNTRY TRADING PARTNERS ON BASIS OF AVAILABLE FIGURES FOR FIRST HALF OF 1975. THESE SHOW DEFICITS WITH UNITED STATES, FRG, FRANCE, ITALY AND JAPAN. TRADE WITH FINLAND HAS REFLECTED SMALL SOVIET SURPLUS FOR FIRST HALF YEAR AND EXPORTS TO UK HAVE BEEN IN SURPLUS BY APPROXIMATELY DOLS 150 MILLION. SINCE MOST DATA AVAILABLE HERE (ALL FROM US AND THIRD-COUNTRY SOURCES) CALCULATE EXPORTS FOB AND IMPORTS CIF, ACTUAL DEFICITS ARE HIGHER THAN FIGURES INDICATE. JAPANESE ESTIMATE TOTAL SIX MONTH DEFICIT FOR SEVEN LEADING DEVELOPED-COUNTRY TRADE PARTNERS AT ABOUT DOLS TWO BILLION.

4. COMMENT: PRELIMINARY SIX-MONTH DATA EMBASSY HAS BEEN ABLE TO ACQUIRE SHOW APPROXIMATE TRADE SURPLUSES FOR FIVE MAJOR DEVELOPED-COUNTRY PARTNERS OF SOVIET UNION AS FOLLOWS IN MILLIONS OF U.S. DOLLARS AT CURRENT EXCHANGE RATES: U.S. 387; JAPAN 283; FRG 767; FRANCE 175; ITALY 147. IMBALANCE FOR THESE FIVE ALONE GIVES SOVIET UNION DEFICIT OF U.S. DOLLARS 1760 MILLION.

5. AMONG CAUSES, RISING PRICES OF WESTERN INDUSTRIAL GOODS AND REDUCED PURCHASES BY RECESSION-PLAGUED INDUSTRIALIZED COUNTRIES STAND OUT. JAPANESE BUSINESSMEN HERE HAVE ESTIMATED THAT COST OF COMPLETE PLANTS WHICH SOVIETS HAVE BEEN PURCHASING FROM JAPAN HAVE INCREASED BETWEEN 300 AND 400 PERCENT SINCE ENERGY CRISIS ERUPTED IN 1973, AND COST OF CONSTRUCTION MACHINERY BY ABOUT 300 PERCENT. IN PLACING SPECIFIC PROJECT ORDERS UNDER DOLLARS ONE BILLION PLUS JAPANESE EXIM BANK CREDIT FOR SIBERIAN DEVELOPMENT EXTENDED IN 1974, JAPANESE EMBASSY TELLS US SOVIETS HAVE ALREADY BEGUN TO ASK FOR MORE CREDIT SINCE INITIAL ALLOCATIONS NO LONGER COVER FULL COSTS OF EQUIPMENT

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NEEDED. WE HAVE NOTED SIMILAR SITUATION WITH OCCIDENTAL PETROLEUM HERE REGARDING U.S. EXIM BANK CREDIT ORIGINALLY EXTENDED FOR AMMONIA PLANTS AND PIPELINE CONSTRUCTION. AND WE NOTE FROM EMBASSY HELSINKI'S REFTTEL OF SEPTEMBER 3 THAT NEW SOVIET-FINNISH CONTRACT FOR PHASE II OF SVETOGORSK ACETATE PULP PLANT WILL BE TWICE AS EXPENSIVE AS PHASE I, WITH SOVIETS COMPLAINING ABOUT BEING ASKED TO PAY FOR COST OF FINNISH INFLATION. OTHER CAUSES CERTAINLY INCLUDE INFLEXIBILITY OF SOVIET FOREIGN TRADE BUREAUCRACY WHICH MAKES IT DIFFICULT IF NOT IMPOSSIBLE TO SCALE DOWN OR MAKE SUDDEN CUTS IN PLANNED PURCHASES OF WESTERN EQUIPMENT, ESPECIALLY DURING LAST YEAR OF CURRENT FIVE-YEAR PLAN.

6. VIEWED IN BROADER PERSPECTIVE, TIMING OF THESE IMBALANCES WITH MAJOR WESTERN PARTNERS COULD HARDLY BE WORSE

AS FAR AS SOVIET UNION IS CONCERNED. IN NEAR FUTURE -- THAT IS, OVER NEXT SIX TO EIGHTEEN MONTHS -- SOVIETS MUST PAY OUT TWO OR MORE BILLION DOLLARS IN CASH FOR GRAIN PURCHASES. JUST HOW MUCH HARD CURRENCY WILL BE AVAILABLE TO COVER THIS UNEXPECTED EXPENDITURE AND ALSO COVER CONVERTIBLE CURRENCY TRADE DEFICITS IS KNOWN ONLY TO TOP LEVELS OF SOVIET LEADERSHIP. SALE OF GOLD IS OBVIOUS BUT UNAPPEALING ANSWER, AND IT MUST BE DISCOMFETING TO MOSCOW'S BANKERS THAT WORLD PRICE OF GOLD IS NOW WOBBLING DOWNWARDS, WITH IMMINENT SALE OF ONE-FIFTH OF INTERNATIONAL MONETARY FUND RESERVES PRESAGING A FURTHER DOWNWARD DRIFT. SOVIET EFFORTS TO ARRANGE HARD CURRENCY FINANCIAL CREDITS IN JAPAN AND IN THE EUROCURRENCY MARKET (REFS B AND E) MUST REPRESENT USSR'S PRESENT THINKING ON SOLUTIONS TO THE QUANDARY. UNDER THE CIRCUMSTANCES, IT SEEMS TO US LIKELY THAT AMONG TOPICS RAISED BY SOVIET FOREIGN TRADE BANK CHAIRMAN IVANOV AND GOSBANK CHAIRMAN SVESHNIKOV WITH BUNDESBANK PRESIDENT KLASSEN DURING SOVIETS RECENT VISIT TO FRG WAS POSSIBILITY OF SOVIET BORROWING FROM DOLLAR HOARD MAINTAINED BY BUNDESBANK. SVESHNIKOV ALLUDED TO THIS IDEA IN CONVERSATIONS HELD MORE THAN A YEAR AGO.

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